

# *Considerations When Funding Multifamily Retrofit Programs*

Tom Corbett, Governor

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# Overview

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- Presentation will concentrate on affordable multifamily developments
- Background on PHFA and our energy retrofit program
- Increased DOE focus on multifamily properties
- Multifamily ownership and funding opportunities
- Benchmarking and data collection
- Collaboration



# PHFA

- The Pennsylvania Housing Finance Agency:
  - Created by the Pennsylvania legislature in 1972
  - Provides the capital for decent, safe, and affordable homes and apartments for older adults, persons of modest means, and those with special housing needs
  - Has provided almost \$11 billion in funding for over single family homes and 83,000 multifamily apartments
  - Created the Preservation through Smart Rehab Program in 2008



# Preservation through Smart Rehab Background

- Approximately 139,000 units of existing affordable housing in Pennsylvania
- More than half are over 25 years old
- Rising cost of operations – utility costs
- PA Deregulation of Electric Rates
- Need to reduce consumption and expenses associated with existing affordable housing stock.
- Goal is to maintain affordability for residents



# Preservation through Smart Rehab Energy Audits

- Must be comprehensive and detailed
- Analyzes past energy usage and provides
  - List of energy savings measures
  - Estimated installation costs
  - Energy savings
  - Utility cost savings
  - Payback period
  - Life cycle cost savings
  - Savings to investment ratio
- Energy Auditor must have the Building Performance Institute (BPI) Multifamily Analyst certification (or similar designation)
- PHFA sponsored energy auditor training



# Preservation through Smart Rehab Committed Funding Sources

- PHFA
- West Penn Power Sustainable Energy Fund
- MacArthur Foundation
- Rural Development
- ARRA – Weatherization Funds
- Project Reserves
- Utility Companies



# Preservation through Smart Rehab Program Monitoring

- PHFA to provide project oversight during construction
- PHFA disbursing agent for project funding
- PHFA will monitor consumption and costs post improvements



# Existing Affordable Housing

- Very large inventory that could benefit from energy improvements
- Affordable multifamily housing typically falls under one or more of these programs:
  - Housing and Urban Development (“HUD”)
  - U.S. Department of Agriculture (“USDA”)
  - Low Income Housing Tax Credits (“LIHTC”)
  - Public Housing Authorities (“PHA”)
  - Other – Community Development Block Grant Program, Federal HOME Program, State programs, etc.





# Increased Focus on Multifamily

- Over the past year, increased focus on multifamily retrofits
  - Weatherization Program Notice 11-4, Effective Date: December 22, 2010
  - Weatherization Program Notice 10-15, Effective Date: March 2, 2010
  - Weatherization Program Notice 10-15A, Effective Date: April 8, 2010



## Notice 11-4

- Guidance Regarding Prioritizing Weatherization Work Based on Housing Type
  - Emphasizes the importance of providing weatherization assistance to multifamily buildings
  - Estimated that 70% of households living in multifamily buildings are income eligible for WAP weatherization services



# Notice 10-15

- Final Rule Amending Eligibility Provisions to Multifamily Buildings
- HUD and USDA will supply lists of properties that meet certain eligibility requirements:
  - Minimum of 66% of units are occupied by income eligible families
  - No undue or excessive enhancement has occurred to the value
  - Some have imposed limitations on rent increases
- Lists will reduce review and verification requirements



# Notice 10-15A

- Guidance regarding accrual of benefits to low income tenants in multifamily buildings
- Tenant Paid Utilities – Assumed tenant benefit with energy cost decrease
  - Note that utility allowances can be adjusted
  - Potential owner dilemma – cost with no benefit to property (split incentive barrier)



# Notice 10-15A

- Owner Paid Utilities – Possible to demonstrate benefits accrue primarily to the resident by:
  - Longer preservation of the property as affordable
  - Continuation of protection against rent increases
  - Investment of savings in facilities or services that benefit the tenants
  - Investment of savings in specific health and safety improvements that benefit the tenants
  - Improvements in heat and hot water distribution and ventilation to improve comfort to residents
  - Establishment of a shared savings program



# Multifamily Ownership

- Ownership structures:
  - Limited profit partnerships (for profit or nonprofit general partners)
  - Nonprofits
  - Cooperatives
- Typically one property per owner entity
- Potential tax implications to ownership
- Owner contributions (if required)
  - Direct cash contribution
  - Loan to property
  - Use of property reserves



# Leverage Opportunities – Multifamily World

- Housing and Urban Development
- U.S. Department of Agriculture
- Low Income Housing Tax Credits
  - Qualified Allocation Plan (QAP)
  - Majority promote green/energy efficiency
- Community Development Block Grant (CDBG) Program
- Federal HOME Program
- State Programs
- Focus is more on preservation



# Other Considerations

- Terminology – Area Median Income
- Owner distributions may be limited
- Rent controls and rent subsidies
- Many aging multifamily deals are straining financially
- Lenders and lien positions
- Type of loans – hard or soft debt
- Training needed for maintenance staff and residents





# Benchmarking and Data Collection

- Benchmarking – cataloging inventory of properties and documenting current utility usage
- Tracking changes made to the property
- Documenting impact of investment (energy savings) in terms of energy usage, cost, and carbon footprint
- Can be used for:
  - Preparing reports for funders
  - Influencing best use of dollars available
  - Leveraging additional dollars



# Collaborations

- Ever increasing attention to energy efficiencies and carbon emissions reduction
- Many different organizations have similar goals
- Forming collaborations can assist with:
  - Advocacy
  - Funding
  - Data Gathering
  - Financing
  - Information Sharing



# Contact Information

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